

ORIGINAL

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

RECEIVED

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MAILING ONLINE SERVICE

Docket No. MC98-1

RESPONSE OF UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

The United States Postal Service hereby provides responses to the following questions posed in Presiding Officer's Information Request No. 2, issued on October 16, 1998: 1, 2, 6, 7, and 8.

Each question is stated verbatim and is followed by the response, together with a declaration from the witness.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

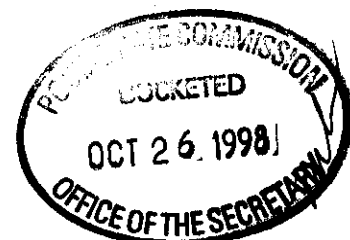
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October 26, 1998



**RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO PRESIDING OFFICER'S
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1. Witness Seckar states that the fixed or start-up costs of mailing online are attributable and will be recovered over the first two years of the service. USPS-T-2 at 9 and USPS-T-2 Exhibit A at 2. However, witness Plunkett excludes them from his Sample Mailing Online Prices exhibit and his revenue calculation. USPS-T-5 Exhibits A and B, footnote 1. If these costs are attributable, why does witness Plunkett exclude them?

RESPONSE: As discussed in Tr. 2/641-643, the Postal Service considers that fees should be based on a markup of the volume variable costs of the service.

Exhibits A and B were developed in conformity with this view.

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2. In the proposed fee schedule, the pre-mailing fee for Mailing Online is shown as $1.25 * (\text{printer costs} + .1)$. USPS Request, Attachment B1. In the response of witness Plunkett to Interrogatory OCA-T-5-28, the information systems cost is shown as .16 cents for two impressions and .4 cents for five impressions, implying a per impression charge of .08 cents. Tr. 2/618. Please reconcile this apparent discrepancy.

RESPONSE: As is consistent with convention, witness Seckar's variable cost estimate of 0.065 cents for 1999-2000 was rounded to the nearest tenth of a cent. In this instance, the resulting per impression cost (0.1 cents per impression) is identical to what would have been used if fixed information systems costs had been included, with the result rounded down. The 0.08 cents used in the response to interrogatory OCA-T5-28 represents the volume variable costs for 1999 only.

RESPONSE OF WITNESS ROTHSCILD TO
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6. Table 15 of USPS-T-4 presents volume estimates for Mailing Online broken down by number of pages and page sizes. The sum of these breakdowns do not match the totals presented in the same table. For example, the sum of the three page sizes for 1999 is 295,694, the sum of the number of page categories is 295,635 and the total for 1999 is 295,665. Discrepancies in these three totals exist for all years. Please reconcile these differences.

RESPONSE: The total volume estimate is the sum of the volume estimate reported by each respondent, on a weighted basis. The volume for each respondent was allocated to breakout categories by multiplying his/her total volume estimate by the percentage of the total that they indicated they would send in that breakout category. In some cases, this resulted in fractions of pieces being allocated to a breakout category. Due to limitations in our software, rounding in these cases may cause discrepancies between the totals.

For example, if a respondent indicated that he/she would send 100 pieces of NetPost, 1/3 in 8 ½ x 11 pages, 1/3 in 8 ½ x 14 pages, and 1/3 in 11 x 17 pages, we would allocate the breakout volume, to seven decimal places, as follows:

8 ½ X 11: 33.3333333

8 ½ X 14: 33.3333333

11 x 17: 33.3333333

TOTAL 99.9999999

There would be a discrepancy of .0000001 between this total and the original total of 100 pieces. When compounded over the entire sample, and by the weighting process, these miniscule rounding differences total to the 30 and 29 pieces mentioned above.

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7. In exhibit USPS-T-5 and response to OCA-T5-21 (Tr. 2/609), witness Plunkett uses the Standard (A) letter size basic piece rate less the destination entry discount-BMC in calculating the postage rate for example 3. In his testimony he states that the applicable postage rate would be the Automation Basic DBMC Rate. Tr. 2/589. Please explain this apparent discrepancy.

RESPONSE: The postage rate should be the automation basic DBMC rate of \$0.167. A revised copy of the relevant pages of Exhibit A is attached.

Exhibit A
Sample Mailing Online Prices - 1999
(Using 8/19/98 Contract Prices)

| | Impression Costs (A) | Paper Costs (B) | Envelope Costs (C) | Folding & Insertion Costs (D) | Information Systems Costs (E) | Subtotal (F) | Contribution (G) = (F) * 0.25 | Fee (H) = (G) * 1.25 | Postage (I) | Total Postage & Fee (J) = (I) + (H) |
|--|----------------------------|-----------------------|--------------------------|-------------------------------------|-------------------------------------|-----------------|-------------------------------------|----------------------------|----------------|---|
| <u>Example 1</u> 2 Page, 8.5x11, Simplex, Black & White, First-Class | \$ 0.0396 | \$ 0.0094 | \$ 0.0150 | \$ 0.0336 | \$ 0.0016 | \$ 0.0992 | \$ 0.0248 | \$ 0.1240 | \$ 0.2700 | \$ 0.3940 |
| <u>Example 2</u> 10 Page, 8.5x14, Duplex, Black & White, First-Class | \$ 0.3960 | \$ 0.0680 | \$ 0.0540 | \$ 0.1550 | \$ 0.0160 | \$ 0.6890 | \$ 0.1723 | \$ 0.8613 | \$ 0.7400 | \$ 1.6013 |
| <u>Example 3</u> 5 Page, 8.5x11, Simplex, Spot Color, Standard (A) | \$ 0.1490 | \$ 0.0235 | \$ 0.0150 | \$ 0.0336 | \$ 0.0040 | \$ 0.2251 | \$ 0.0563 | \$ 0.2814 | \$ 0.1670 | \$ 0.4484 |
| <u>Example 4</u> 22 Page, 8.5x14, Duplex, Spot Color, First-Class | \$ 1.3112 | \$ 0.1496 | \$ 0.0540 | \$ 0.1550 | \$ 0.0352 | \$ 1.7050 | \$ 0.4263 | \$ 2.1313 | \$ 1.4000 | \$ 3.5313 |

Attachment to
Response to POIR
#2, Question 7

Detailed Calculation of Costs for Exhibit A, Example 3

5 Page, 8.5x11, Simplex, Spot Color, Standard (A)

| Source | Description | | |
|--|---|------------------|--|
| (A) Impression Costs | | | |
| (a) USPS-LR-11, Part 1, Schedule, 1.1 | Total Impression Cost, 8.5x11 Spot Color | \$ 0.0298 | |
| (b) | Number of Impressions | 5 | |
| (c) =(a) * (b) | Total Impression Costs | \$ 0.1490 | |
| (B) Paper Costs | | | |
| (d) USPS-LR-11, Part 1, Schedule, 1.1 | 8.5 x 11 Paper Cost per sheet | \$ 0.0047 | |
| (e) | Number of Sheets | 5 | |
| (f) =(d) * (e) | Total Paper Costs | \$ 0.0235 | |
| (C) Envelope Costs | | | |
| (g) USPS-LR-11, Part 1, Schedule, 1.1 | # 10 Envelope - No window and logo | \$ 0.0150 | |
| (D) Folding & Inserting Costs | | | |
| (h) USPS-LR-11, Part 1, Schedule, 1.1 | Two folds | \$ 0.0336 | |
| (E) Information Systems Costs | | | |
| (i) USPS T-2, Exhibit A, page 2, line 32 | Variable Information Systems Costs | \$ 0.0008 | |
| (j) | Number of Impressions | 5 | |
| (k) = (i) * (j) | | \$ 0.0040 | |
| (F) Subtotal | | | |
| (l) =(c) + (f) + (g) + (h) + (k) | | \$ 0.2251 | |
| (G) Contribution | | | |
| (m) | Markup | 25% | |
| (n) = (l) * (m) | Contribution | \$ 0.0563 | |
| (H) Total Fee | | | |
| (o) = (l) + (n) | | \$ 0.2814 | |
| (I) Postage | | | |
| (p) | Weight per 8x11sheet of paper (ounces) | 0.2 | |
| (q) | Number of sheets | 5 | |
| (r) = (p) * (q) | Total paper weight | 1.0 | |
| (s) | Weight per #10 envelope (ounces) | 0.2 | |
| (t) = (r) + (s) | Total mail piece weight | 1.2 | |
| (u) =roundup[(t),1] | Number of postage ounces | 2.0 | |
| Rate | | | |
| (v) R97-1 rates eff. 1/10/99 | Standard (A) Letter Size Basic Piece rate | \$ 0.1830 | |
| (w) R97-1 rates eff. 1/10/99 | Destination Entry Discount - BMC | \$ 0.0160 | |
| (x) =(v) + [(u) - 1] * (w) | Total Postage | \$ 0.1670 | |
| (y) = (o) + (x) | (I) Total Postage and Fees | \$ 0.4484 | |

**RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO PRESIDING OFFICER'S
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8. Please refer to USPS-T-5, Exhibit D, page 1. Please explain why the postage rates for the flat mail categories are simply the additional ounce rates and do not include the automation basic rate of 30 cents.

RESPONSE: The automation basic rate should be included. A corrected first page of Exhibit D is attached.

Estimated Mailing Online Postage Revenue

| Volumes ¹ | % of Total | Year 1 | 8.5/11 ² | 8.5/14 | 11/17 |
|-----------------------------|------------|---------|---------------------|--------|--------|
| Total Volume | 100.0% | 295,665 | | | |
| Rapid Volume | 31.0% | 91,745 | | | |
| Standard Volume | 69.0% | 203,920 | | | |
| 1-2 pages | 67.8% | 200,490 | 158,167 | 17,663 | 24,680 |
| 3-4 pages | 10.7% | 31,547 | 24,888 | 2,779 | 3,883 |
| 5-6 pages | 9.5% | 28,059 | 22,135 | 2,472 | 3,454 |
| 7-10 pages | 3.2% | 9,432 | 7,441 | 831 | 1,161 |
| 11-15 pages | 1.8% | 5,263 | 4,152 | 464 | 648 |
| More than 15 pages | 7.1% | 20,844 | 16,444 | 1,836 | 2,566 |
| Printed on 8-1/2 x 11 paper | 78.9% | 233,250 | | | |
| Printed on 8-1/2 x 14 paper | 8.8% | 26,048 | | | |
| Printed on 11 x 17 paper | 12.3% | 36,396 | | | |

| Volume By Ounce Increments | | Revenue Leakage | | | | | | | | | | | |
|------------------------------------|--------------------|-----------------|---------|--------|--------|----------|----------------------|--------------------------|------------------------------|----------------------------|--------------------------------|-----------------------|-------------|
| | # Ozs ⁴ | Total | 8.5/11 | 8.5/14 | 11/17 | Rate | Revenue ⁵ | New Revenue ⁶ | Existing Volume ⁷ | Existing Rate ⁸ | Rate Differential ⁹ | Leakage ¹⁰ | Net Revenue |
| First Class Letters ³ | 1 | 70,372 | 56,802 | 5,912 | 7,658 | \$ 0.27 | \$ 19,001 | \$ 7,220 | 43,631 | \$ 0.33 | \$ 0.060 | \$ 2,618 | \$ 4,602 |
| | 2 | 9,272 | 6,869 | 1,198 | 1,205 | \$ 0.49 | \$ 4,543 | \$ 1,726 | 5,749 | \$ 0.55 | \$ 0.060 | \$ 345 | \$ 1,382 |
| | 3 | 1,072 | | | 1,072 | \$ 0.71 | \$ 761 | \$ 289 | 665 | \$ 0.77 | \$ 0.060 | \$ 40 | \$ 249 |
| First Class Flats | 1 | | | | | \$ 0.30 | | | | | | | |
| | 2 | 1,796 | 1,732 | 64 | 0 | \$ 0.52 | \$ 934 | \$ 355 | 1,114 | \$ 0.55 | \$ 0.030 | \$ 33 | \$ 322 |
| | 3 | 1,920 | 1,608 | 222 | 90 | \$ 0.74 | \$ 1,421 | \$ 540 | 1,190 | \$ 0.77 | \$ 0.030 | \$ 36 | \$ 504 |
| | 4 | 2,223 | 1,957 | 86 | 180 | \$ 0.96 | \$ 2,134 | \$ 811 | 1,378 | \$ 0.99 | \$ 0.030 | \$ 41 | \$ 770 |
| | 5 | 2,041 | 1,699 | 171 | 170 | \$ 1.18 | \$ 2,408 | \$ 915 | 1,265 | \$ 1.21 | \$ 0.030 | \$ 38 | \$ 877 |
| | 6 | 1,922 | 1,699 | 142 | 80 | \$ 1.40 | \$ 2,691 | \$ 1,023 | 1,192 | \$ 1.43 | \$ 0.030 | \$ 36 | \$ 987 |
| | 7 | 342 | 0 | 142 | 199 | \$ 1.62 | \$ 554 | \$ 210 | 212 | \$ 1.65 | \$ 0.030 | \$ 6 | \$ 204 |
| | 8 | 302 | 0 | 142 | 159 | \$ 1.84 | \$ 555 | \$ 211 | 187 | \$ 1.87 | \$ 0.030 | \$ 6 | \$ 205 |
| | 9 | 159 | | | 159 | \$ 2.06 | \$ 328 | \$ 125 | 99 | \$ 2.09 | \$ 0.030 | \$ 3 | \$ 122 |
| | 10 | 159 | | | 159 | \$ 2.28 | \$ 363 | \$ 138 | 99 | \$ 2.31 | \$ 0.030 | \$ 3 | \$ 135 |
| | 11 | 159 | | | 159 | \$ 2.50 | \$ 398 | \$ 151 | 99 | \$ 2.53 | \$ 0.030 | \$ 3 | \$ 148 |
| | 12 | 159 | | | 159 | \$ 2.72 | \$ 433 | \$ 165 | 99 | \$ 2.75 | \$ 0.030 | \$ 3 | \$ 162 |
| Total First Class | | 91,899 | 72,365 | 8,082 | 11,452 | | \$ 36,524 | \$ 13,879 | 56,977 | | | \$ 3,211 | \$ 10,669 |
| Standard Mail Letters ¹ | # Ozs <3.3087 | 179,407 | 141,520 | 15,804 | 22,083 | \$ 0.167 | \$ 29,961 | \$ 11,385 | 111,232 | \$ 0.24 | \$ 0.068 | \$ 7,564 | \$ 3,821 |
| Flats | <3.3087 | 8,260 | 7,423 | 637 | 200 | \$ 0.229 | \$ 1,892 | \$ 719 | 5,121 | \$ 0.30 | \$ 0.075 | \$ 384 | \$ 335 |
| Piece/Pound | | | | | | | | | | | | | |
| # Pieces | >3.3087 | 16,596 | 11,903 | 1,522 | 3,171 | \$ 0.105 | \$ 1,743 | \$ 662 | 10,290 | \$ 0.16 | \$ 0.059 | \$ 607 | \$ 55 |
| # Pounds | | 5,333 | 3,312 | 535 | 1,486 | \$ 0.598 | \$ 3,189 | \$ 1,212 | 3,307 | \$ 0.68 | \$ 0.079 | \$ 261 | \$ 951 |
| Total Standard Mail | | | | | | | \$ 36,784 | \$ 13,978 | | | | \$ 8,816 | \$ 5,162 |
| Total Revenue | | | | | | | \$ 73,309 | \$ 27,857 | | | | \$ 12,027 | \$ 15,830 |

Notes:

1. LR-2/MC98-1, p. 39
2. Assumes that relative proportions of volume by paper size are constant for all document lengths. E.g. 78.9% of 5-6 page documents are on 8.5/11 paper.
3. Letters are assumed to be all documents less than 7 pages in length.
4. For the purposes of estimating volume by ounce increment, the following paper and envelope weights are assumed.
 8.5"x11" = 0.2 oz.
 8.5"x14" = 0.254 oz.
 11"x17" = 0.4 oz.
 #10 Envelope = 0.2 oz.
 Flat Envelope = 0.4 oz.
5. Revenue = Total Volume X Rate. Assumes rates after implementation of Docket No. R97-1.
6. New revenue = 0.38 X Revenue (LR-1/MC98-1, p. 38)
7. Existing Volume = 0.62 X Total (ibid.)
8. Existing rates assume that customers would have paid the highest applicable rate for their mail pieces. For instance, customers sending First-class pieces are assumed to have paid the single-piece rates
9. Rate differential is the difference between the applicable and existing rates.
10. Revenue leakage = Rate differential X Existing volume

DECLARATION

I, Michael K. Plunkett, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


MICHAEL K. PLUNKETT

Dated: October 26, 1998

DECLARATION

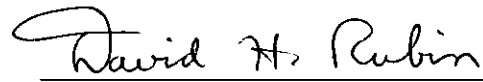
I, Beth B. Rothschild, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Beth B. Rothschild

Dated: 10/26/98

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



David H. Rubin

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October 26, 1998